

ROUTING

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NATIONAL INTELLIGENCE DAILY CABLE

Friday 31 March 1978

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State Dept. review completed

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National Intelligence Daily Cable for Friday, 31 March 1978.

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The NID Cable is for the purpose of informing senior US officials.

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CONTENTS

25X1

OPEC: Losses Due to Dollar Decline	Page 3
USSR: Unusual Trip for Brezhnev	Page 4
ZAIRE-RWANDA: Worried About Cubans	Page 5
CHAD-LIBYA: Conflicting Communiques	Page 7
PORTUGAL: IMF Talks Resume	Page 7
NORWAY-USSR: Svalbard Fisheries	Page 9
BANGLADESH: Return to Politics	Page 10
BRIEFS:	Page 11

Rhodesia

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Next 1 Page(s) In Document Exempt

OPEC: Losses Due to Dollar Decline

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[REDACTED] OPEC countries denominate oil export prices in US dollars but pay for most imports in other currencies. A report by the OPEC secretariat concludes that its members might now be earning up to 16 percent more on their oil exports if oil prices had been quoted in a "basket" of currencies instead of dollars over the last 15 months. We believe the actual loss in OPEC's purchasing power due to the decline of the dollar is about half the secretariat's official estimate.//

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[REDACTED] If OPEC had denominated its oil prices in the International Monetary Fund's Special Drawing Rights or in an import-weighted basket of currencies over the last 15 months, the real value of its oil revenues clearly would have been higher. However, it would not necessarily be to OPEC's advantage to switch to one of these baskets now.

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[REDACTED] The value of the dollar in relation to these baskets has risen and fallen several times during the four years since the quadrupling of oil prices. Had any one of the currency baskets under consideration been applied continually since January 1974, OPEC would have been slightly worse off. A switch in currency denomination at this time, when the dollar is at its lowest value in three years, would be as likely to deny OPEC members the fruits of a future rebound by the dollar as to insure them against further declines.

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[REDACTED] The dollar's recent weakness has not affected all OPEC nations equally. Indonesia, Iraq, and Kuwait have been hardest hit by the dollar's decline. These countries trade heavily with Japan, the UK, and West Germany--whose currencies have appreciated strongly against the dollar--and consequently their import bills are 11 to 13 percent more, in dollar terms, than they were a year and a half ago.

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25X1 [] Officials in Iraq and Kuwait have already indicated that if there is no oil price increase in the near future, they will be forced to restrict development expenditures. We estimate, however, that all three countries will run current account surpluses this year even if oil prices remain frozen.

25X1 [] Most of the OPEC members experiencing balance-of-payments difficulties--Algeria, Ecuador, Gabon, and Venezuela--have seen their purchasing power decline by only about 5 percent. Nigeria is the only cartel member that has been severely affected by the dollar's fall and is also in a difficult financial position. The dollar's depreciation against West European currencies has added 10 percent to Nigeria's import bill in the last year. Nigeria is expected to have a current account deficit of more than \$3 billion in 1978.

25X1 [] The OPEC secretariat report claims that the dollar--and thus OPEC's purchasing power--has declined 15.5 percent against an import-weighted basket of 11 major currencies and 6.1 percent in relation to the International Monetary Fund's Special Drawing Rights since the last general oil price increase in December 1976.

25X1 [] Our import-weighted estimates of losses in purchasing power agree on the magnitude of the dollar's decline against Special Drawing Rights, but show only an 8- to 9-percent decline depending on the number of currencies used. Independent estimates also support this range. []

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USSR: Unusual Trip for Brezhnev

25X1 [] Soviet President Brezhnev and Defense Minister Ustinov began an unusual trip by rail to Siberia and the Soviet Far East on Tuesday. The first day of the trip resembled a whistlestop tour in which Brezhnev talked with local party leaders and was said to be warmly welcomed by the people in Kirov and Perm.

25X1 [] Yesterday Brezhnev was reported to have stopped in Tyumen, the center of the important West Siberian oil and gas region, for a meeting with party leaders and economic officials.

He apparently exhorted his audience to accelerate oil and gas production and delivered specific instructions on West Siberian development for the remaining three years of the current five-year plan.

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[] Coming only a week after a visit to Tyumen by Premier Kosygin, Brezhnev's appearance there reflects serious concern within the leadership about oil and gas supplies. Moscow has assigned a high priority to the policy initiated last December of speeding up Tyumen oil extraction, and Brezhnev has committed his prestige to this effort.

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[] After the stop in Tyumen, Brezhnev went on to Omsk, where he met with members of the regional party bureau. In a speech there, Brezhnev focused on the machine-building, oil processing, and petrochemical industries, as well as improvement in living conditions and agricultural production.

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[] Ustinov's presence on the trip makes a visit to some military installations a likely possibility, and he and Brezhnev may observe some military exercise activity along the way. They probably will also inspect construction work on the Baykal-Amur Mainline railroad project, which employs substantial military labor. Traveling to the Soviet Far East by rail would require the group to make the latter part of the journey along the Sino-Soviet border near some of the disputed areas. As an alternative, Brezhnev might shift to air transportation farther east in Siberia to save time or to facilitate his inspection of the railroad project. []

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ZAIRE-RWANDA: Worried About Cubans

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[] *Presidents Mobutu of Zaire and Habyarimana of Rwanda have expressed concern over the growing Soviet and Cuban influence in Africa--specifically over the opening of a Cuban Embassy in neighboring Burundi. Their additional allegation that Cuba has established a military presence in Burundi has not been confirmed. Mobutu's government is already concerned over the Cuban military presence in neighboring Angola and Congo, and probably believes it will only be a matter of time before a substantial number of Cubans are in Burundi.*

25X1 [] Rwanda and Zaire may be coordinating their efforts to sound the alarm. In recent discussions with US officials, both have accused the US of "abandoning" Zaire and failing to meet the Soviet-Cuban challenge in Africa. The Rwandan Foreign Minister indicated to the US Ambassador last week that Habyarimana had been in recent contact with Mobutu.

25X1 [] Mobutu has voiced concern to US officials in Kinshasa that the new Cuban presence in Burundi poses a threat to the security of Zaire's eastern region. Zaire's Ambassador in Burundi, citing Cuban activities in Ethiopia and Angola, echoed his government's fears of Cuban subversive activities being carried out against his country from Burundi.

25X1 [] Habyarimana and Mobutu, as African "moderates," are understandably uneasy over the presence of Cubans in "progressive" Burundi. The three African countries have been attempting to strengthen their economic and political links and to maintain the region's tenuous stability, but their historical ties and the sometimes volatile ethnic relationships among residents of Rwanda, Burundi, and Zaire's eastern region are such that instability within any of the three countries poses a very real threat to the others.

25X1 [] Habyarimana and Mobutu probably believe that the Cubans, if they wish, could eventually destabilize Burundi's fragile internal situation. Smuggling, refugee movements, and rumors of cross-border activities by various dissident groups are already causing concern in the region. Several weeks ago Zaire complained that Burundi was not doing enough to monitor the activities of opponents to Mobutu moving back and forth across the border.

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CHAD-LIBYA: Conflicting Communiques

25X1 [] The second round of talks between Chad and Libya aimed at seeking a peaceful resolution to the protracted struggle between the Chadian Government and Libyan-backed Chadian rebels ended on Monday. The results, however, have been obscured by the publication of conflicting communiques.

25X1 [] A communique issued on Monday in Tripoli indicated that little progress was made during the talks. The communique called for a cease-fire, an end to mutually hostile propaganda, and another meeting to be held in June. It did not mention the rebels' preconditions for their involvement in negotiations-- "recognition" and cessation of "imperialist intervention" in Chad.

25X1 [] On Tuesday, Tripoli issued a second, "final" communique, also published in Khartoum, that differed substantially from the initial one. Tuesday's version accommodated the insurgents' demands by calling for, among other things, "recognition" of the rebel movement by the "provisional government" in Chad and the establishment of a military commission to "observe the presence of foreign forces in Chad."

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25X1 [] there may have been considerable hostility at the meetings. It is possible that the second communique may be a Libyan ploy aimed at embarrassing the Chadians. The government in Ndjamena has not commented on the meeting, except for making a brief statement that conformed to the first version of the communique. []

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PORTUGAL: IMF Talks Resume

25X1 [] Portugal's negotiations for a second credit tranche agreement with the International Monetary Fund resumed yesterday amid considerable domestic skepticism about the government's ability to meet the Fund's recommended austerity targets. Differences over interest rates, credit ceilings, and devaluation policies remain to be worked out, but an agreement is expected within a few days. Opposition groups on the right and left have recently toned down criticism of the negotiations

but may renew attacks on Prime Minister Soares' government once the \$800 million in loans from the Fund and a consortium of countries in the Organization for Economic Cooperation and Development appear secure.

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[] Portuguese negotiators probably view the talks with foreboding despite signs of increased flexibility on the Fund's part. They fear they may be forced to adopt economic policies that are politically untenable.

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[] Soares already faces serious opposition on the left from Communists and labor organizations, who resent his bringing conservative Center Democrats into his government and believe the government is out to clip their wings. The Communists appear to be manipulating strikes and other labor protests in preparation for more extensive political agitation they hope to undertake when workers' conditions worsen.

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[] Soares' lack of political support among labor groups jeopardizes the entire economic recovery effort by weakening the government's control over wages and production. Attempts to remedy this situation have largely failed. Talks with labor leaders earlier this month made little headway, and the leaders are resentful of threats by the Minister of Labor to use stronger measures to achieve cooperation.

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[] Communists are also strong in the critical agricultural sector, revival of which is essential to Finance Minister Constancio's efforts to reduce Portugal's heavy dependence on food imports. Without stability in agriculture and labor, Soares stands little chance of meeting import and export targets specified in his mid-term economic program.

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[] //Like Soares, all the major opposition groups realize that an agreement with the IMF now is essential. This in part explains the apparent decline in criticism from both left and right of the IMF in recent weeks. This mood probably will not hold. []

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[] business interests on the right may only be waiting for the terms of the agreement to be spelled out before voicing their opposition.//

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[] //Even if an IMF agreement is secured, many Portuguese are skeptical that Soares will hold to it. Soares gave priority to solving political rather than economic problems. If he follows this pattern now, he would increase his government's chances for survival but at the cost of again postponing the critical austerity program.//

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[] Any step away from austerity would probably meet strong resistance from Constancio, who recently submitted his budget for legislative approval. The budget foreshadows stricter fiscal controls despite record unemployment, and many of its targets are in line with IMF recommendations. Signs of weakness in the government's commitment to austerity may hurt Constancio's efforts to build legislative support for his budgetary proposals.

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NORWAY-USSR: Svalbard Fisheries

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[] Discussions between Norway and the USSR on a fisheries protective zone in the Svalbard Treaty area ended earlier this month with a joint communique, which Oslo hopes holds the promise of Soviet cooperation with Norwegian fishing regulations. Prior to the talks in Moscow, Norwegian Law of the Sea Minister Evensen discussed the fisheries protective zone the Norwegians established last June with officials from several of the Western signatories to the Svalbard Treaty. Any special considerations the Norwegians give the Soviets could raise concerns among Norway's opposition parties and NATO allies that the Soviets will gain a favored position at the expense of the other signatories.

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[] Evensen hoped to gain Soviet compliance with fishing restrictions in the Svalbard Treaty area before this year's fishing season. The Soviets have refused to report fish catches as required by existing Norwegian regulations, because Moscow does not recognize exclusive Norwegian authority over activities on the Svalbard shelf and prefers joint Soviet-Norwegian administrative arrangements.

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[] As a result of the talks in Moscow, the Norwegians believe they have devised a way to protect the fish resources in the Svalbard area without compromising their sovereignty or the rights of any of the 41 Svalbard Treaty signatories. Evensen

[]

believes that implementation of fishing controls is urgent for conservation reasons and that the principles of sovereignty in the Svalbard area need not be addressed at this time.

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[] Moscow sees the possibility of resource exploitation by the West--primarily the NATO countries--as a potential threat to its military use of the adjacent seas. The Soviets would prefer that only Soviet and Norwegian companies carry out exploitation and are wary of precedents that could alter their position in the area.

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[] The communique summing up the talks in Moscow is vaguely worded, but for the first time the Soviets appear to have accepted the need for regulations and for collecting data. Although the Soviets did not recognize Norwegian authority in these areas, Oslo expects that the Soviets will comply with the fishing regulations Norway will promulgate on 1 May.

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[] During the first few months enforcement will not be rigorous. Soviet fishing data apparently will be collected and passed on to Oslo, although the means of doing so is unclear. Data submitted to the Norwegian Government by other nations apparently will be available to the Soviets only in the form available to all participants.

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[] Oslo continues to press Western signatories, especially the US, to expand their commercial and scientific interests in the Svalbard area in order to strengthen their position in dealing with the Soviets. []

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BANGLADESH: Return to Politics

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[] Significant political changes appear imminent in Bangladesh following President Ziaur Rahman's reported acceptance of the demands of civilian politicians in exchange for their support for his candidacy in the June presidential election. According to one political leader, Zia has agreed to replace his present council of advisers--mostly non-political technocrats--with an interim national government within a few days. The new government, composed of moderate politicians, would rule until the parliamentary election next November is completed.

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25X1 [] As chief martial law administrator, Zia appointed himself president early last year and handily won a popular referendum confirming him in that position. Over the past year he has tried to bring civilians into his essentially military administration in order to silence domestic and foreign critics. He apparently has now concluded that his position can only be legitimized by holding--and winning--a relatively free election against political opponents.

25X1 [] Zia is a career army officer and has no political organization upon which to base such a campaign. The Awami League party of former President Mujibur Rahman, who was assassinated in 1975, is probably the largest party in the country and adamantly opposes Zia's continued rule. To convince the several smaller parties to form a political front to support him against the League, Zia apparently had to scrap his plan to have a strong presidential form of government after the election and accept a weaker presidency with an elected parliament.

25X1 [] Zia has previously been able to cope with the country's endemic political factionalism and violence by relying on loyal military officers and the troops under their command to restore order. A short-lived mutiny last October of Air Force and some Army enlisted men, however, showed that the military's loyalty to him is not absolute.

25X1 [] Plotting and agitation are more the norm than the exception in Bangladesh and do not necessarily indicate that a coup attempt is imminent. Once Zia becomes embroiled in the organization of his political front and in campaigning, however, he could easily lose touch with the armed forces and leave himself vulnerable to a power play by any one of several disgruntled military groups. []

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BRIEFS

Rhodesia

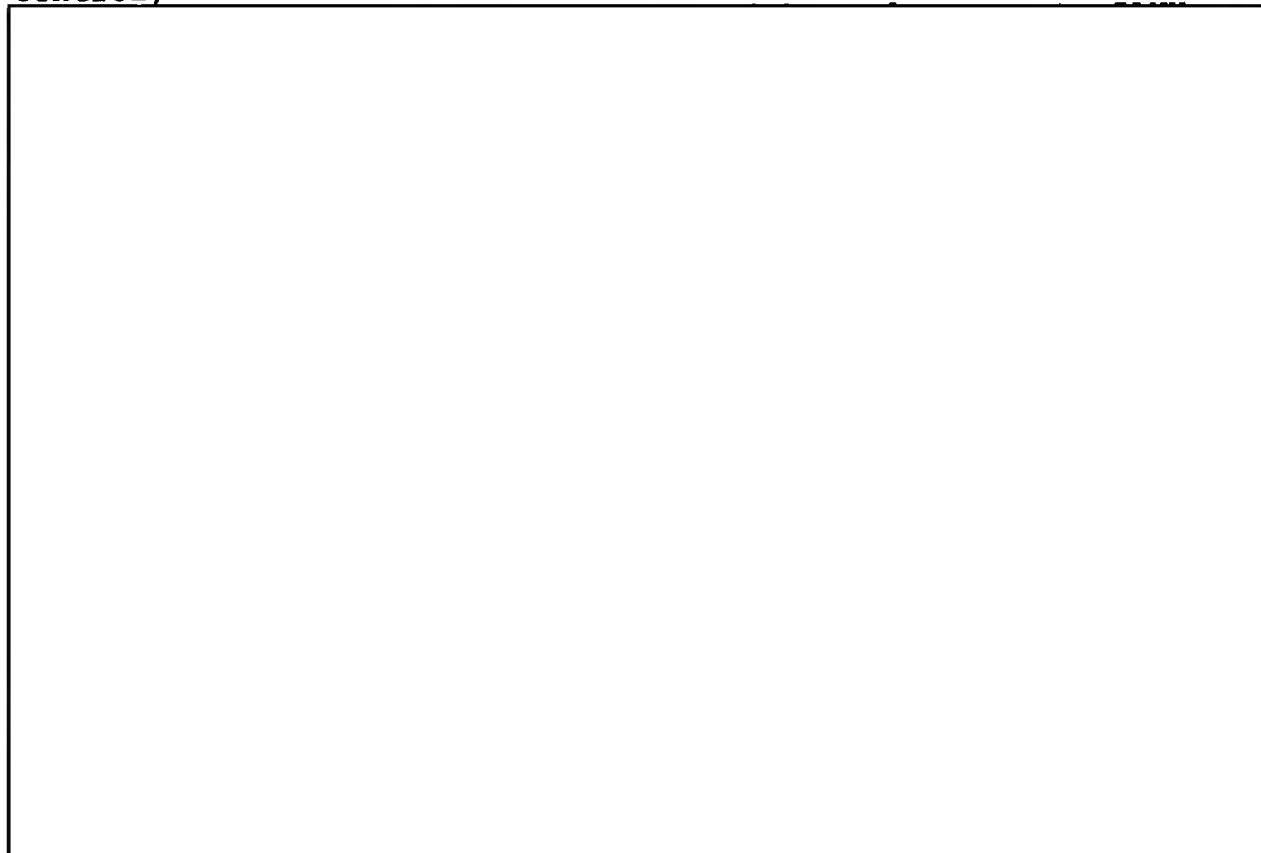
25X1 [] Over 400 black students at a church school in southwestern Rhodesia have been abducted by guerrillas, according to press reporting from Salisbury. The youths and half

of the school's staff were taken into Botswana, probably by guerrillas from the Zimbabwe African People's Union. Although groups of school children flee or are abducted from time to time, a group as large as this has not been involved in such an incident in over a year. Only about 50 of the students are reported to have opted to join ZAPU, which has been active in the Botswana border area of late. The Botswanans have announced that the rest will be returned to Rhodesia.

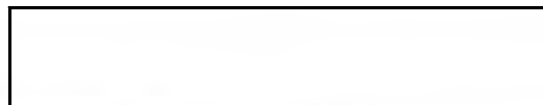
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[REDACTED] //In the recent fighting along the Mozambique border, meanwhile, the Rhodesians have now admitted that several hundred guerrillas from the Zimbabwe African National Union were involved. The Rhodesians say the situation is under control, with six of their soldiers and 19 guerrillas killed.

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